

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LETCHER COUNTY SHERIFF

For The Year Ended
December 31, 2005

The Auditor of Public Accounts has completed the Letcher County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$3,582 from the prior year, resulting in excess fees of \$3,582 as of December 31, 2005. Revenues increased by \$26,164 from the prior year and expenditures increased by \$22,582.

Debt Obligations:

Capital lease principal agreements totaled \$40,915 as of December 31, 2005. Future principal and interest payments of \$41,007 are needed to meet these obligations.

Report Comments:

- The Sheriff Should Remit His Excess Fees To The Fiscal Court As Required By KRS 134.310
- The Sheriff Should Avoid Paying Late Charges From His Official Fee Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Letcher County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 8, 2008, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Remit His Excess Fees To The Fiscal Court As Required By KRS 134.310
- The Sheriff Should Avoid Paying Late Charges From His Official Fee Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Letcher County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 8, 2008

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	3,290
State Grants			35,519
State - Kentucky Law Enforcement Foundation Program Fund			19,586
State Fees For Services:			
Finance and Administration Cabinet	\$	14,159	
State Fee Claims		36,036	
Conveying Prisoners		<u>10,678</u>	60,873
Circuit Court Clerk:			
Fines and Fees Collected			53
Fiscal Court			94,077
County Clerk - Delinquent Taxes			4,158
Commission On Taxes Collected			213,391
Fees Collected For Services:			
Auto Inspections		7,879	
Accident and Police Reports		480	
Serving Papers		24,900	
Carrying Concealed Deadly Weapon Permits		<u>8,610</u>	41,869
Other:			
Letcher County Board of Education - School Resource Officer		15,202	
Add-On Fees		33,895	
Sheriff's Fees		3,130	
Reimbursement for Jurors		196	
Bank Shares		7,455	
Court Ordered Restitution		453	
Miscellaneous		<u>30</u>	60,361
Interest Earned			529

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Revenues (Continued)

Borrowed Money:

State Advancement	\$ 105,170	
Bank Note	<u>60,000</u>	<u>\$ 165,170</u>

Total Revenues		<u>698,876</u>
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Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Gross Salaries	175,650
Office Gross Salaries	49,752
Dispatcher Gross Salaries	60,237
School Resource Officer	13,466
Victims Advocate	27,742

Employee Benefits-

Employer's Share Social Security	27,862
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Contracted Services-

Vehicle Maintenance and Repairs	7,797
Accounting Services	1,908
Wrecker Services	275

Materials and Supplies-

Office Materials and Supplies	8,626
Uniforms	5,232
Gasoline	29,957
Postage	9,601

Other Charges-

Carrying Concealed Deadly Weapon Permits	6,620
Dues	689
Water Services	327
Food for Jurors	717
Bond	1,554
Fitness Program	1,098
Copy Machine	1,205
Phone/TV	4,855
Training Services	1,618
Computer Services	2,697

LETCHER COUNTY

The accompanying notes are an integral part of this financial statement.

DANNY WEBB, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges-(Continued)

Transport Prisoners	\$	1,265	
Highway Safety Awareness Materials		966	
Miscellaneous		<u>1,479</u>	\$ 443,195

Debt Service:

State Advancement		105,170	
Bank Note		60,000	
Leases		<u>17,803</u>	<u>182,973</u>

Total Expenditures			626,168
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Less: Disallowed Expenditures-

Late Payment Charges			<u>340</u>
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Total Allowable Expenditures			<u>625,828</u>
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Net Revenues			73,048
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Less: Statutory Maximum			<u>69,466</u>
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Excess Fees Due Fiscal Court At Completion Of Audit			<u><u>\$ 3,582</u></u>
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The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. Note Payable

On July 11, 2005 the Letcher County Sheriff borrowed \$60,000 from a local bank. The purpose of the note was for office expenses. The terms of the loan agreement require the Sheriff to pay the principal payment of \$60,000 plus interest at the rate of 6.5% per annum on the unpaid principal balance from July 11, 2005 until paid in full, due on October 11, 2005. The Sheriff paid the principal of \$60,000 on December 8, 2005. The principal balance on December 31, 2005 was \$0.

Note 5. Leases

Automobiles

A. On March 7, 2003, the Letcher County Sheriff entered into a lease agreement to purchase four (4) automobiles. The terms of the agreement require a monthly payment of \$2,238 for 42 months beginning April 15, 2003 with final payment to be due on September 15, 2006. The total remaining principal balance was \$30,940 on December 31, 2005.

B. On May 27, 2004, the Letcher County Sheriff entered into a lease agreement for \$17,106 to purchase a 2004 Chevrolet Tahoe. The terms of the lease agreement require a monthly payment of \$598 for thirty (30) months beginning July 15, 2004, with final payment being due on December 15, 2006. The total remaining principal balance was \$9,975 on December 31, 2005.

Note 6. Special Accounts

A. Street Level Drug Investigation and Equipment Fund

The Letcher County Sheriff had a Street Level Drug Investigation and Equipment Fund account. The beginning balance in this account was \$261. During calendar year 2005, the Sheriff transferred \$261 into the Drug Forfeiture Account. The balance in this account was \$0 as of December 31, 2005.

B. Drug Forfeiture Account

The Sheriff had a drug forfeiture account with a beginning balance of \$1,352. The Sheriff received forfeited funds of \$51,346 and Child ID Renewal Program funds of \$4,700 during the calendar year. The Sheriff disbursed \$56,386 leaving a balance of \$1,012 on December 31, 2005.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 7. Grants

A. Governor's Highway Safety Program

The Letcher County Sheriff's office was approved to receive a Highway Safety Grant in the amount of \$5,800 during the calendar year 2005. The contract period was from October 1, 2004 until September 30, 2005. The purpose of the grant is to educate, inform, enforce, and target violators of Kentucky traffic laws and make drivers more safety conscious while driving. During calendar year 2005, the Letcher County Sheriff's office received reimbursements of \$3,290 from this grant for salary and benefits, public information, and educational materials. There was a remaining balance of \$2,510 on the grant at the end of the contract period. The contract states "no costs incurred for this project will be eligible for reimbursement after the contract period is over."

B. Victim Advocate Funding

The Letcher County Sheriff's office received funding through the Office of the Attorney General, Frankfort, KY for a victim advocate staff position. The Sheriff's office received \$35,519 in reimbursements for salary and benefits for this staff position during the calendar year 2005.

Note 7. Subsequent Event – Missing Evidence Money

The Sheriff informed us that his office confiscated evidence money in the amount of \$2,440. On February 2, 2006, an order of forfeiture was issued forfeiting 10% of the cash to the Commonwealth Attorney's Office with the remainder to be distributed to the Letcher County Sheriff's office. The money is missing from the Sheriff's evidence and could not be distributed in accordance with the order of forfeiture. This is currently under investigation by the Kentucky State Police.

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COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Remit His Excess Fees To The Fiscal Court As Required By KRS 134.310

The Sheriff did not remit his excess fees to the fiscal court by March 15, 2006. KRS 134.310 requires the sheriff to file annually a complete statement of all funds received by his office for official services and a complete statement of all expenditures of his office, including his salary, compensation of deputies, assistants, and reasonable expenses. At the time he files the statements required, the sheriff shall pay to the fiscal court any fee, commissions, and other income of his office which exceed the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants. The Sheriff did present his settlement to the fiscal court, however he did not pay the excess fees. We recommend the sheriff comply with KRS 134.310 by remitting his excess fees to the fiscal court.

Sheriff's Response: This will be paid. This was presented but stipulated pending audit.

The Sheriff Should Avoid Paying For Late Charges From His Official Fee Account

The Sheriff paid late payment charges totaling \$340 on a lease-purchase agreement. Technical Audit Bulletin #93-001 Section 3 includes the following as a practice that shall be subject to an audit comment relating to Ky Const. S 173; KRS 132.601(1); and Funk v. Milliken, 317 S.W.2d 499 (KY 1958):

- Penalties for late payments.

We recommend the Sheriff comply with Technical Audit Bulletin #93-001 Section 3, by making required installment payments on a timely basis to avoid penalties in the future.

Sheriff's Response: This will not happen again. (This was caused due to Fiscal Court paying payments – meeting had to be held for approval which delayed payment).

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted a lack of adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:
(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continue)

- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the quarterly report.
- The Sheriff should require dual signatures on all checks and should periodically compare invoices to payments. The Sheriff should document this review by initialing and dating the invoices.

Sheriff's Response: We are going to follow the recommendations.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Letcher County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated April 8, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The following reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Remit His Excess Fees To The Fiscal Court As Required By KRS 134.310
- The Sheriff Should Avoid Paying Late Charges From His Official Fee Account

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 8, 2008

